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**Report on establishment of four (4) proposed Municipal Service Districts
for beach erosion control, flood and hurricane protection works, and flood control and drainage
projects in accordance with GS 160A-535 – 160A-544**

The Nags Head Board of Commissioners will hold a public hearing on the proposed Municipal Service Districts on Wednesday, May 5, at 9:00 a.m. in the Board of Commissioners Meeting room.

BACKGROUND AND INTRODUCTION:

Section 160A-536 of the North Carolina General Statutes authorizes the Town to create one or more Municipal Service Districts (MSDs) to finance, provide, or maintain for the district(s) beach erosion control and flood and hurricane protection works as well as drainage projects; the work described herein is planned for the purpose of providing these services in the proposed MSDs. Section 160A-537(a) of the North Carolina General Statutes allows the Town to establish, by ordinance, service districts upon a finding that the proposed districts are in a demonstrably greater need than other areas of the Town for services authorized by §160A-536.

In order to establish an MSD or MSDs, the Board of Commissioners must hold a public hearing on the proposed district(s). Prior to this public hearing, a report must be prepared that includes: 1. a map of the proposed district(s), showing its proposed boundaries; 2. a statement showing the proposed district(s) meet or meets the standards set out in §160A-537(a); and 3. a plan for providing in the district(s) one or more of the services listed in §160A-536. This report is intended to provide the foregoing three requirements.

1) The attached map identifies four (4) proposed Municipal Service Districts

District 3 – All properties east of South Croatan Highway between Bonnett Street and Gulfstream Street/South Virginia Dare Trail

District 4 – All properties between Gulfstream Street/South Virginia Dare Trail and the southern town limits

District 5 – All properties east of South Virginia Dare Trail between Eighth Street and Bonnett Street

District 6 – All properties east of South Croatan Highway between Eighth Street and Bonnett Street

The attached map also depicts two (2) existing Municipal Service Districts

Existing Municipal Service Districts, Districts 1 and 2 as listed below, were created in 2011 to levy taxes and generate funds to pay for project expenses associated with beach erosion control efforts and flood and hurricane protection works. These two districts are described as follows:

District 1 – All properties east of South Virginia Dare Trail and South Old Oregon Inlet Road between Bonnett Street and Gulfstream Street

District 2 – All properties east of South Old Oregon Inlet Road between Gulfstream Street and the southern town limits

2) Statement indicating that services are needed in the districts to a demonstrably greater extent than the rest of the town

The Town of Nags Head has been actively engaged in the planning, design and construction of beach erosion control, flood, and hurricane protection works projects for more than 20 years. The town has successfully completed the construction of two major projects related to these purposes. The first project placed 4.6 million cubic yards of beach compatible sand over 10 miles of the town's beaches starting from Bonnett Street and ending at the southern town limits. The total cost of construction was slightly greater than \$36 million. The second project, which was a combined town and FEMA public disaster assistance project, placed 4.0 million cubic yards of sand over 10 miles of the town's beaches. The total cost of this project was \$40 million. In both projects, other expenses included engineering analysis, design, environmental permitting, surveying, monitoring/compliance with the federal Endangered Species Act, vegetative sprigging and sand fencing, extension of ocean outfalls, legal expenses associated with easement acquisition, and other incidental costs. Funds have come from a variety of sources including the Dare County beach nourishment fund, FEMA public disaster assistance funds, and town property taxes. It is anticipated in the future that the town will be required to pay a minimum of 50 percent of the cost of each project. From the 2011 to 2019 project, unit costs (cubic yards) for sand rose greater than 35 percent. The town must assume for planning purposes that most expenses associated with nourishment and other shoreline management activities will continue to rise in future years. As the town continues to plan for future beach erosion control and hurricane protection works projects, refinements to the approach and coordination with other local communities is necessary to capitalize on potential economies of scale that may offset anticipated cost increases.

To date, each project has been funded utilizing property tax revenue from a town-wide tax combined with revenue from two Municipal Service Districts (Districts 1 and 2). The town-wide tax has paid for approximately 25 percent of the town's share of project expenses. The remaining 75 percent of the cost has been borne by property owners in the two Municipal Service Districts.

These projects have been successful in demonstrating clear benefits to the Town and its property owners. These benefits include the protection of properties on or adjacent to the oceanfront and properties adjacent to oceanfront properties or that are otherwise near the ocean. All such properties have been protected from erosion and storm damage. They have also benefited from protection of infrastructure such as roads, waterlines, septic systems, electrical services, and beach accesses that serve these properties and their occupants. Properties on and near the oceanfront also benefit from the maintenance of a recreational beach that is attractive, free of debris and hazards, and usable by the owners of oceanfront properties and properties that are near the ocean, as well as their occupants. These benefits can be assigned to different parts of the community at different levels, with oceanfront properties having the greatest benefit. Properties neighboring but not directly on the ocean also benefit from reduced overwash flooding and impacts to infrastructure, as well as increased property values due to their proximity to a well-maintained recreational beach. The entire town also receives a series of benefits, but to a lesser extent than these other areas.

The Town's structure for financing beach nourishment and hurricane and flood protection works to date has apportioned project cost primarily to the owners of oceanfront and oceanside properties (east of South Virginia Dare Trail and South Old Oregon Inlet Road) with the remainder of the properties in town bearing part of the cost. This reflects the fact that properties throughout Town - including those most distant from the oceanfront - receive important benefits from projects that enhance the oceanfront although to a lesser extent. The Town's financing strategy has not, however, fairly reflected the benefits that have accrued to the areas directly west of South Virginia Dare Trail and South Old Oregon Inlet Road, and that is why there is no current MSD west of South Virginia Dare Trail

and South Old Oregon Inlet Road. The value of these properties is also closely tied to proximity to the beach. Properties in the proposed districts are considered to be in an area of ocean influence by the Dare County Tax Assessor's office which generally increases property values. If the access points were damaged or destroyed or if the beach in these areas becomes degraded due to erosion or storm damage and debris, the value of these properties would be reduced to a greater extent than properties further from the ocean.

These relative benefits are reflected by the taxing structure throughout Dare County.

Numerous studies establish that the oceanfront areas of Town will indefinitely continue to experience erosion and other damage caused by both typical and aberrant tidal and storm forces as well as rising ocean levels. The Town recognizes the necessity of projects to protect the oceanfront and areas near the ocean from the effects of these forces, including damage to roads, utilities, and structures on these properties and has adopted a policy to undertake such projects instead of a "retreat" policy. As the Town continues to protect properties on and near the ocean, the Town will strive to equitably apportion project costs.

The goal of the proposed municipal service districts would be to offset the cost of protecting properties located in these new service districts through future beach erosion control, flood and hurricane protections works projects. Creating these new districts would tie the cost of these project activities at a proportionate and reasonable share to the benefits that they receive.

It is anticipated that the existing and proposed municipal service districts would be utilized and combined to fund future projects. Property owners east of South Virginia Dare Trail and South Old Oregon Inlet Road would be located within two separate districts and would likely be assessed two MSD tax rates. For example, an oceanfront property owner south of Bonnett Street would be located within districts 1 and 3. Property owners west of South Virginia Dare Trail and South Old Oregon Inlet Road would be within one MSD and therefore assessed one tax rate. The new districts combined with the existing districts would allow for a modified distribution of project costs.

The town has in recent years completed several drainage and flood control projects in the proposed MSD areas. An example of this includes the extension of the ocean outfalls and the redesign and reconstruction of the conveyance system connecting to the Red Drum ocean outfall. The town anticipates continuing to address this work in future years and is therefore including this as an established purpose of the proposed MSDs.

3) Plan for Providing in the Municipal Service Districts One or More of the Services Listed in 160A-536

The Nags Head Board of Commissioners will hold a public hearing on the proposed Municipal Service Districts on Wednesday, May 5, 2021 at 9:00 a.m. in the Board of Commissioners meeting room located at 5401 S. Croatan Highway.

The town has entered into a contract with consultants to conduct planning and design work for future beach erosion control and hurricane protection works projects. This work includes the following tasks:

- Establishing data collection protocols for the town's annual maintenance and monitoring plan.
- Establishing a schedule for annual surveys/monitoring.
- Establishing protocols and requirements for conducting assessments/surveys on an as-needed basis pre- and post-storm events.
- Examining the town's existing reports and historical data to understand past project performance.
- Analyzing data and developing/refining models that will become the basis for design criteria and future project assumptions. Adjusting reach boundaries accordingly to consider how the town aggregates areas with similar performance. Establishing protocols for and considering revisions to the town's maintenance and monitoring plan.
- Working with the Town Board of Commissioners and staff to establish preferred strategies for planning, permitting and design of future projects. This would include consideration of timing of future efforts in conjunction with other local projects, permitting strategies and timing, and providing input to assist with the development of the town's funding strategy.
- The town is also working to construct a FEMA beach restoration project related to damages from Hurricane Dorian.

Future work will include design, permitting and construction of the next project as well as ongoing shoreline management initiatives to protect and benefit properties throughout the existing and proposed municipal service districts.